

Hong Leong Bank (HLBK MK)

3Q25: Solid Underlying Performance

Highlights

- Hong Leong Bank's (HLB) reported 1QFY26 net profit was broadly in line.
- HLB's core operations (ex-associate) delivered a solid performance, with underlying 1QFY26 PBT rising 8% and pre-provision operating profit expanding 11% yoy despite the drag from the 25bp OPR cut.
- Maintain BUY and target price of RM23.80 (11.5% ROE and 1.19x FY26F P/B). Valuations remains compelling at 1.0 SD below its historical mean PBV.

3Q25 Results

Year to 30 Jun	1QFY26 (RMm)	1QFY25 (RMm)	yoy % chg	4QFY25 (RMm)	qoq % chg
Net Interest Income	1,025.1	1,010.0	1.5	1,021.8	0.3
Islamic Banking	317.7	287.8	10.4	302.6	5.0
Fees & Commissions	187.6	162.7	15.3	180.9	3.7
Trading income	123.3	16.9	628.3	97.2	26.8
Other income	31.1	120.4	(74.2)	17.5	77.4
Total Income	1,684.8	1,597.9	5.4	1,620.1	4.0
Operating Expenses	(606.9)	(625.5)	(3.0)	(625.7)	(3.0)
PPOP	1,078.0	972.4	10.9	994.5	8.4
Provisions	(38.0)	(7.6)	401.3	(2.9)	1,207.1
Associate	311.1	374.6	(16.9)	366.6	(15.1)
PBT	1,351.1	1,339.4	0.9	1,358.2	(0.5)
Net profit	1,091.0	1,090.0	0.1	1,088.6	0.2
EPS (sen)	53.2	53.2	0.1	53.1	0.2
DPS (sen)	0.0	0.0	n.a.	68.0	(100.0)
BVPS (RM)	19.00	17.78	6.9	19.16	(0.8)

Financial Ratios (%)	1QFY26 %	1QFY25 %	yoy +/- ppt	4QFY25 %	qoq +/- ppt
NIM	1.84	1.92	(0.08)	1.90	(0.06)
Loan Growth, yoy	9.1	6.8	2.2	7.8	1.3
Deposit Growth, yoy	7.7	5.0	2.8	8.4	(0.6)
Loan/Deposit Ratio	88.2	86.9	1.3	86.6	1.6
Cost/Income Ratio	36.0	39.1	(3.1)	38.6	(2.6)
ROE	11.2	11.8	(0.7)	11.2	(0.0)
NPL Ratio	0.6	0.5	0.0	0.5	0.0
Credit Costs (bp)	7.1	1.5	5.6	0.6	6.5
CET-1 CAR	12.7	13.2	(0.5)	13.2	(0.5)

Source: Hong Leong Bank, UOB Kay Hian

Analysis

- In line.** Hong Leong Bank (HLB) reported 1QFY26 net profit of RM1.09b (+0.1% yoy, +0.2% qoq). Earnings are deemed in line, with the quarter representing 23% of our full-year forecast. We expect NIM recovery in the remaining quarters—as deposits reprice and funding mix normalises—to support stronger sequential earnings growth.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net interest income	3,822	3,988	4,085	4,251	4,428
Non-interest income	963	1,251	1,426	1,531	1,623
Net profit (rep./act.)	4,196	4,273	4,734	5,160	5,582
Net profit (adj.)	4,196	4,681	4,734	5,160	5,582
EPS (sen)	201.8	208.5	230.9	251.7	272.3
PE (x)	10.5	9.3	9.2	8.4	7.8
P/B (x)	1.2	1.1	1.1	1.0	1.0
Dividend yield (%)	3.2	4.5	5.4	6.5	7.1
Net int margin (%)	1.79	1.79	1.76	1.76	1.77
Cost/income (%)	40.5	38.7	37.8	37.0	36.4
Loan loss cover (%)	155.0	96.8	91.8	126.4	127.4
Consensus net profit	-	-	4,541	4,825	5,152
UOBKH/Consensus (x)	-	-	1.04	1.07	1.08

Source: Hong Leong Bank, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM21.20
Target Price	RM23.80
Upside	12.3%

Analyst(s)

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Stock Data

GICS Sector	Financials
Bloomberg ticker	HLBK MK
Shares issued (m)	2,167.7
Market cap (RMm)	45,955.6
Market cap (US\$m)	11,045.7
3-mth avg daily t'over (US\$m)	8.2

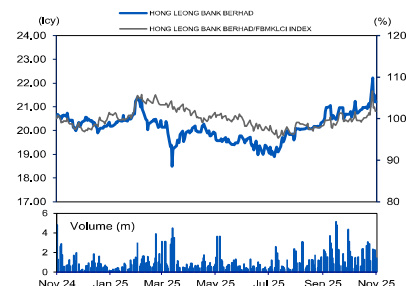
Price Performance (%)

52-week high/low					RM22.22/RM18.42
1mth	3mth	6mth	1yr	YTD	
2.5	7.4	6.6	1.9	3.1	

Major Shareholders

	%
Hong Leong Financial Group Berhad	61.8
Employees Provident Fund Board	9.4
FY26F NAV/Share (RM)	19.26
FY26F CAR Tier -1 (%)	14.38

Price Chart



Source: Bloomberg

Company Description

This is fourth largest bank in term of asset size focusing on retail banking with presence in China through 20% owned Bank of Chengdu.

- **1QFY26 earnings trend.** 1QFY26 earnings were broadly flattish yoy, as robust non-interest income (+16.3% yoy) and positive JAWS were partly offset by normalisation in loan impairments, an 8bp yoy NIM compression following the OPR cut, and lower associate contribution due to the natural dilution of its stake in BOCD. Earnings were flattish qoq, as solid revenue growth and lower expenses were offset by normalised credit costs and lower associate earnings.
- **Solid underlying qoq growth momentum.** The group delivered a solid 4% qoq revenue increase, supported by a 16% qoq expansion in non-interest income driven by stronger trading, wealth management and credit card-related fees. Together with positive operating JAWS, this underpinned an 8% qoq rise in pre-provision operating profit. However, the upward normalisation in credit cost partly tempered the otherwise strong earnings momentum.
- **Robust growth ex-associate contribution.** HLB's core operations (ex-associate) delivered a solid performance, with underlying PBT rising 8% and pre-provision operating profit expanding 11% despite the drag from the 25bp OPR cut. Its qoq performance was equally commendable with PBT and pre-provision operating profit rising 5% and 8% qoq.
- **Above-industry loans growth sustained.** Loans expanded 9.1% yoy, sustaining above-trend momentum across key retail and SME segments. Growth was broad-based, led by transport vehicles (+11.4% yoy), unsecured (+14.5% yoy), SME (+10.5% yoy) and commercial banking (+8.7% yoy). Residential mortgages remained steady with +6.4% yoy growth. International operations also delivered strong traction, with Singapore and Vietnam rising 13.6% yoy and 12.0% yoy respectively in local currency terms.
- **NIM compressed 6bp qoq to 1.84% in 1QFY26,** reflecting the full impact of the recent OPR cut. The decline was cushioned partially by proactive funding optimisation and robust CASA acquisition, resulting in a 9% yoy CASA growth. 1QFY26 NIM of 1.84% sits at the lower end of management's full-year guidance range, implying room for NIM improvement over the course of the financial year as deposit re-prices downwards.
- **Asset quality broadly stable.** The group's GIL ratio inched up 3bp qoq to 0.57% in 1QFY26, driven largely by a single SGD39m account in Singapore, which is fully collateralised. Excluding this, domestic asset quality improved, with the domestic GIL ratio declining 3bp qoq to 0.50%, supported by broad-based improvements across key segments, including SMEs. Loan-impairment coverage remains strong at 95%, rising to 243% after including regulatory reserves.
- **Outlook.** 2026 key guidance are as follows: a) Loans growth: 6%-7%, b) net credit cost: <10bp, c) ROE: 11.5%-12.0%, d) GIL ratio: <0.65%, e) CIR: 39%, and f) NIM: 1.80%-1.90%.

Valuation/Recommendation

- **Maintain BUY and target price of RM23.80 (11.5% ROE and 1.19x FY26F P/B).** Our target P/B multiple of 1.19x is aligned with the stock's historical mean, while current valuations at 1.07x P/B remain compelling, trading at 1SD below its long-term average. We continue to like HLB for its ability to consistently deliver above-industry growth while maintaining impeccable asset quality and a strong liquidity position, which provides flexibility to manage NIM pressures.

Earnings Revision/Risk

- No revision to earnings.

Share Price Catalyst

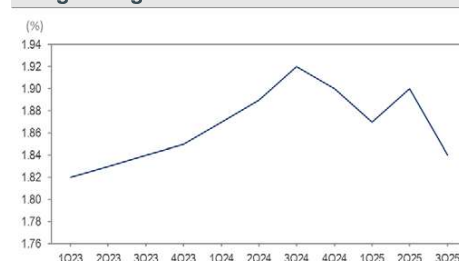
- Stronger-than-expected trading and wealth management income.
- Stronger-than-expected loans growth.

Key Assumptions

(%)	2025F	2026F	2027F
Loan Growth	6.0	6.5	6.5
Credit Cost (bp)	2.0	2.0	2.0
ROE	11.5	11.8	12.2

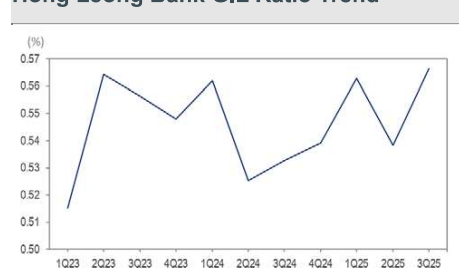
Source: Hong Leong Bank

Hong Leong Bank NIM Trend



Source: Hong Leong Bank

Hong Leong Bank GIL Ratio Trend



Source: Hong Leong Bank

Environmental, Social, Governance (ESG) Updates

Environmental

- **Carbon emission commitment.** Reduce Scope 1 and 2 emissions by 40%-50% by 2031
- **Raising market share for hybrid vehicle financing.** HLB's market share for hybrid vehicle financing has rose to 9% in 2021, comprising 2.8% of the group's outstanding HP loans.

Social

- **Gender diversity.** Female comprises 40% of the group's upper management.

Governance

- **Non-independent board of directors composition.** Composition of Independent Non-Executive Directors (INED) – 55 %

Source: Hong Leong Bank, UOB Kay Hian

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Interest income	8,889	9,675	10,181	10,660
Interest expense	(4,901)	(5,590)	(5,930)	(6,231)
Net interest income	3,988	4,085	4,251	4,428
Fees & commissions	720	777	839	906
Net Trading Income	230	288	316	326
Other income	301	361	376	391
Income from islamic banking	1,160	1,287	1,429	1,586
Total income	6,398	6,798	7,211	7,638
Staff costs	(1,333)	(1,386)	(1,456)	(1,528)
Other operating expense	(1,146)	(1,180)	(1,215)	(1,252)
Pre-provision profit	3,919	4,232	4,540	4,857
Loan loss provision	383	(45)	(24)	(25)
Other provisions	0	4	4	5
Associated companies	1,058	1,641	1,838	2,041
Pre-tax profit	5,360	5,833	6,358	6,877
Tax	(1,087)	(1,099)	(1,198)	(1,296)
Minorities	0	0	0	1
Net profit	4,273	4,734	5,160	5,582
Net profit (adj.)	4,681	4,734	5,160	5,582

Balance Sheet

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Cash with central bank	2,028	4,470	4,756	5,066
Govt treasury bills & securities	45,319	47,132	49,017	50,978
Interbank loans	3,250	3,412	3,583	3,762
Customer loans	208,965	222,332	236,099	251,479
Investment securities	26,704	27,906	29,162	30,474
Derivative receivables	2,258	2,258	2,258	2,258
Associates & JVs	9,211	9,211	9,211	9,211
Fixed assets (incl. prop.)	1,110	1,154	1,201	1,249
Other assets	15,774	19,231	23,329	27,596
Total assets	314,618	337,107	358,616	382,072
Interbank deposits	9,936	10,532	11,164	11,834
Customer deposits	241,195	253,255	265,918	279,213
Derivative payables	2,650	2,862	3,091	3,338
Debt equivalents	4,423	4,417	4,417	4,416
Other liabilities	17,128	24,551	30,399	37,330
Total liabilities	275,331	295,617	314,988	336,131
Shareholders' funds	39,287	41,490	43,627	45,941
Minority interest - accumulated	0	0	0	0
Total equity & liabilities	314,618	337,107	358,616	382,072

Operating Ratios

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Capital Adequacy				
Tier-1 CAR	13.3	13.2	14.8	15.0
Total CAR	16.3	16.3	18.3	18.3
Total assets/equity (x)	8.0	8.1	8.2	8.3
Tangible assets/tangible common equity (x)	8.4	8.5	8.6	8.7
Asset Quality				
NPL ratio	0.5	0.6	0.6	0.6
Loan loss coverage	96.8	91.8	126.4	127.4
Loan loss reserve/gross loans	0.5	0.5	0.7	0.7
Increase in NPLs	9.9	12.8	5.6	3.7
Credit cost (bp)	(18.2)	2.0	1.0	1.0
Liquidity				
Loan/deposit ratio	86.6	87.8	88.8	90.1
Liquid assets/short-term liabilities	20.1	20.8	20.7	20.5
Liquid assets/total assets	16.1	16.3	16.0	15.7

Key Metrics

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Growth				
Net interest income, yoy chg	4.3	2.4	4.1	4.2
Fees & commissions, yoy chg	5.9	8.0	8.0	8.0
Pre-provision profit, yoy chg	14.2	8.0	7.3	7.0
Net profit, yoy chg	1.8	10.8	9.0	8.2
Net profit (adj.), yoy chg	11.6	1.1	9.0	8.2
Customer loans, yoy chg	8.1	6.4	6.2	6.5
Customer deposits, yoy chg	8.4	5.0	5.0	5.0
Profitability				
Net interest margin	1.8	1.8	1.8	1.8
Cost/income ratio	38.7	37.8	37.0	36.4
Adjusted ROA	1.5	1.5	1.5	1.5
Reported ROE	10.9	11.4	11.8	12.2
Adjusted ROE	10.9	11.4	11.8	12.2
Valuation				
P/BV (x)	1.1	1.1	1.0	1.0
P/NTA (x)	1.2	1.1	1.1	1.0
Adjusted P/E (x)	9.3	9.2	8.4	7.8
Dividend Yield	4.5	5.4	6.5	7.1
Payout ratio	46.0	50.0	55.0	55.0

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